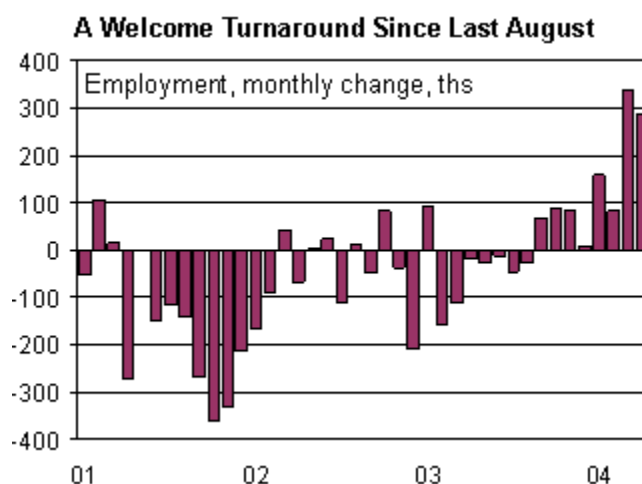


## Help Wanted



By Andy Kish in West Chester  
May 13, 2004

Since last August, when payrolls bottomed, the U.S. economy has created more than 1.1 million jobs, neatly erasing more than 40% of the jobs lost since March 2001, the beginning of the last recession. The labor market's recovery has investors scrambling to assess the magnitude of the employment upswing's impact on Federal Reserve policy while economists breathe a sigh of relief that at last the payroll trends conform to the bullish jobless claims numbers.



While witnessing two straight months of above-expectations employment gains will put a spring in anyone's step, it is ultimately the trends behind the headline number that are most instructive in shedding light on the state of the labor market. Positively, most industries are now adding jobs. The payroll survey's diffusion index, which measures the breadth of hiring activity, has registered a reading above 60 in the past two months for the first time in nearly four years. Additionally, the average workweek, while basically unchanged in recent months, is still elevated relative to last year. Even some of the industries, such as food or chemicals manufacturing, which have been laggards since overall employment started to rise last fall have seen payrolls improve in recent months.

### Net change in employment, ths, SA

Top ten leading industries (bold indicates leading industry in 1992 employment recovery)

	Since Aug. 2003	Since Jan. 2004
<b>Administrative &amp; support services</b>	238.4	147.9
<b>Food services &amp; drinking places</b>	178.2	80.6
<b>Ambulatory health care services</b>	92.9	44.5
Specialty trade contractors	87.1	52.4
Building material & garden supply stores	57.8	31.1
<b>Hospitals</b>	39.5	11.9
<b>Management &amp; tech.consulting services</b>	37.7	16.5
<b>Social assistance</b>	36.1	19.2
Construction of buildings	33.5	10.2
<b>State government</b>	33.0	23.0

Bottom ten lagging industries (bold indicates lagging industry in 1992 employment recovery)

	Since Aug. 2003	Since Jan. 2004
<b>Computer and electronic products</b>	-9.0	1.6
Chemicals	-9.8	1.9
Gasoline stations	-11.3	-5.0
Insurance carriers & related activities	-11.8	1.1
Rental and leasing services	-13.2	-5.8
Textile mills	-15.7	-3.1
Telecommunications	-16.1	-6.1
Printing & related support activities	-18.2	-7.0
Food manufacturing	-22.1	1.0
Federal Government	-33.0	2.0

Still, what characterizes the labor market turnaround currently is that most industry hiring has been modest so far, with the payroll gains largely driven by a few select industries. Indeed, the ten industries that have added the most jobs since last August represent less than one-third of total employment but have accounted for three-quarters of job creation since that time.

This imbalance, however, is actually quite normal for this stage in the recovery. In fact, the labor market upturn has been notably similar to the employment recovery after the 1990-1991 recession. Seven of the leading industries currently were leaders during the first eight months of the last labor market turnaround in 1992. The three discrepancies—specialty trade contractors, building material stores, and building construction firms— all reflect the strong contribution of the housing market during this economic recovery. As with last time, the healthcare industry has provided steady support, while state governments are starting to expand again as fiscal pressures ease.

At the top of the list, exactly like the last employment recovery, are administrative and support services and food services and drinking places, two bellwethers during the initial stage of a labor market turnaround. Temp hiring, which represents less than 2% of employment but has accounted for 14% of the jobs gained in the last eight months, has helped drive administrative and support services growth as firms initially address rising demand with temporary staff. Food services employment, meanwhile, has jumped as the industry positions itself for stronger demand now that the economic recovery is clearly sustainable.

Both these industries are also low-paying, minimizing the relative risk of adding additional workers. Average hourly earnings in administrative and support services are 17% below the average for all private sector industries while restaurant wages are 50% below the national average. Since these two industries are leading the employment turnaround, it is unlikely that the stronger labor market will immediately translate into a significant improvement in wage growth. The broader hiring trend is also not especially conducive for stronger wage growth. Hourly production workers, presumably earning lower wages than salaried employees, represent just over two-thirds of total employment but have accounted for 74% of the jobs gained since last August. The continuing reduction in the number of high-paying white-collar positions in transportation and warehousing and the information industry will also weigh on income growth.

If the 1992 labor market recovery is a good guide, the present employment turnaround, currently supported largely by a few key industries, should become more broad based as the numerous industries doing small scale hiring now become more aggressive in increasing payrolls. The labor market diffusion index, for example, steadily recorded readings greater than 60 in 1993 and enjoyed a stretch of 10 straight months above 70 starting in early 1994.

Employers are already indicating their willingness to take on new workers. The latest Manpower employment outlook survey, for example, reported that 28% of employers surveyed intend to increase payrolls in the current quarter, marking a three-year high. Restaurants and temp agencies may be the leaders of the present wave of hiring activity, but they are likely to be joined soon by a host of other industries eager to take advantage of the growing economy.

This article can be found on The Dismal Scientist at:  
<http://www.economy.com/dismal/pro/article.asp?aid=2778>

Reproduction and/or redistribution of material from any  
Economy.com pages without written permission is strictly prohibited  
Copyright © 2004 Economy.com, Inc.  
Economy.com, Inc., 600 Willowbrook Lane, West Chester, PA 19382